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SUBJECT: (SBU) BIOFUELS CONSULTANTS BEGIN WORK ON SECOND
PHASE OF U.S.-BRAZIL BIOFUELS INITIATIVE

REF: A. SANTO DOMINGO 1121
¶B. SANTO DOMINGO 1158

¶1. (U) SUMMARY. Biofuels consultants working under the U.S.-Brazil Biofuels Initiative were in the Dominican Republic October 2 and 3 to meet with GoDR and private-sector players in the liquid fuels sector. The State Department provided funding through the Organization of American States (OAS) to Hart Energy Consulting and Energy and Security Group (ESG) to provide technical assistance for the implementation of an ethanol blend in gasoline as mandated under the Dominican Republic,s renewable energy law. To kick-off the event, the U.S. and OAS Ambassadors, as well as the DCM from the Brazilian embassy, helped the consultants present the project to a group of high-level officials from key GoDR ministries. The event was covered widely in the press. Subsequent meetings, while very productive, revealed GoDR infighting on the issue and doubts about local ethanol production. END SUMMARY.

¶2. (U) Hart Energy Consulting and Energy and Security Group (ESG) joined forces to work on this contract, granted by the OAS with funds provided by the Department, as part of the cooperative initiative between the United States and Brazil to promote biofuels in the Caribbean region. The companies have received a USD 300,000 contract to provide technical assistance to help the Dominican Republic begin blending ethanol in domestically sold gasoline. Although the consultants will analyze the possibility of different blends, ranging from 2 to 85 percent ethanol, Law 57-07, the renewable energy law, calls for a 10 percent blend by 2009 and 15 percent by 2010.

¶3. (U) The eight-person team was led by Judy Siegel of ESG and Frederick Potter of Hart. They were joined by Department AAAS fellow Noel Gurwick and Francisco Burgos of the OAS. EconOff also attended all meetings. The kick-off meeting began as a closed-door session with high-level GoDR officials including National Energy Commission (CNE) President Aristides Fernandez Zucco, Dominican Corporation of State Electricity Companies (CDEEE) Executive Vice President Radhames Segura and Congressmen Pelegrin Castillo and Victor &Ito8 Bisono. Ambassador Fannin opened the meeting by speaking to the merits of biofuels and OAS Ambassador Paul Durand followed with similar praise. Following the introduction of the consultants and the consultants, presentation of their project, the contractors, Burgos and EconOff responded to questions from the group. Zucco also spoke about CNE progress on the issue, describing plans for an international tender to import ethanol. The press then joined the meeting; Ambassador Fannin welcomed their entrance

and described the importance of and potential for biofuels in the Dominican Republic.

¶4. (SBU) In addition to the kick-off presentation, the group met separately with the CNE,s director of biofuels, Onil Abreu Tabar, and the Ministry of Industry and Commerce,s (SEIC) director of non-conventional energy, Salvador Rivas. Although these two agencies share the lead role on renewable energy issues, tensions were apparent ) when EconOff asked Rivas to speak in an aside during the kick-off event, Rivas said he did not want to speak with CNE President Aristides Fernandez Zucco in the room. Rivas said he opposes the CNE,s plan to hold an international bidding process for ethanol importers.

¶5. (U) Yet while these agencies disagree on details, they share the common goal of achieving the blending benchmarks, which Rivas and Tabar say are opposed by some civic groups as well as the refinery administration. On October 3, the group visited the country,s sole refinery, Refinera Dominicana, S.A. (Refidomsa). Refidomsa managers shared internal calculations showing that a 10 percent ethanol mix would lead to USD 30 million annually in lost tax revenue for the government and cost the refinery USD 2.5 million per year, while providing only a minimal cost reduction in gasoline prices for the consumer. Rivas, who attended the Refidomsa briefing, disputed these numbers and said that SEIC had its own calculations showing a much brighter scenario.

¶6. (U) In July, the GODR agreed to purchase Shell,s 50 percent stake in Refidomsa to make it wholly government-owned. The sale is expected to become final in November, when the government completes payment to Shell. Rivas and Tabar both said that full government ownership of the facility would facilitate achieving the blending goals, though Tabar said he expected the government to resell the company to the private sector at some point in the near term. (Note: In July, during a Petrocaribe meeting in Venezuela, President Fernandez floated the idea of Venezuela purchasing a share of the refinery (Ref B). End Note) Refidomsa General Manager Alfredo Nara, a Shell employee who expects to leave when the sale becomes final, acknowledged that, "In the end, we will do what is best for the country." Nevertheless, he stressed that blending would be a hard sell to the public and skeptics in the government if it represents an economic burden.

¶7. (U) While recognizing that many of the questions of political will are beyond the scope of the project, the consultants said that they would hone the calculations and provide an independent voice that could help reconcile inter-agency differences. Primarily, however, the consultants focused their questions on the technical information needed to blend ethanol with gasoline, and reported that by the end of their visit that they had obtained most of the data needed to prepare the contracted assistance.

¶8. (U) In other meetings, retail gasoline executives and sugarcane producers described additional challenges that they foresee with the ethanol blending plans. The gasoline executives noted that gasoline accounts for a shrinking fraction of the liquid fuel market share, with subsidized liquid petroleum gas (LPG) proving a much more economical option for consumers. According to ExxonMobil General Manager Miguel Estepan, gasoline sales fell 27 percent from 2002 to 2007, while LPG sales jumped more than 30 percent. (COMMENT: A government plan to focalize the subsidy for public transportation vehicles and poor households that use LPG for cooking is being implemented, but even this will not eliminate the market distortion as LPG is not taxed. END COMMENT.)

¶9. (SBU) The contractors met with sugarcane investors eager to produce ethanol but who said they feel stymied by the complicated Dominican sugarcane market. They said that despite vast acreage of prime sugarcane land left fallow and

with sugarcane harvests at an historic low, the potential for ethanol production is unlikely in the near term because of two factors: inflated prices for refined sugar and an oligopoly in the region. Omar Bros of Cosorcio Tecno Deah (CTD) noted that one ton of sugarcane is worth USD 70 as refined sugar sold on the Dominican Market, USD 55 as refined sugar sold under the tariff rate quota in the United States and just USD 37 when converted into ethanol. Because the refined sugar prices are set well above world market prices, he dismissed the possibility that current producers would forego sugar production to make ethanol. Furthermore, the investors said that the Dominican sugar industry is controlled by the Vicini and Fanjul families, allowing them to act as a virtual monopoly. The Vicini and Fanjul families have announced plans for a USD 500 million joint venture that includes both sugar and ethanol production, but Vicini executives told EconOff in June that the project is held up by land discrepancies between the government and former tenants (Ref A).

¶10. (U) The group also held meetings with officials from the Ministries of the Environment and Agriculture. They hope to meet on a subsequent visit with officials working on carbon credits under the Clean Development Mechanism.

¶11. (U) COMMENT: Following the meetings, Siegel and the other consultants told EconOff that they were pleased with the progress they had made on the project but were concerned about certain facts that will complicate the practical application of the new law. Internal disagreements, they said, are to be expected and they hoped that their participation as an outside organization will mitigate infighting between the SEIC, the CNE, Refidomsa and other agencies. As Rivas told the consultants, "It,s one thing if I say something; it,s totally different if you say it." After meeting with the sugarcane representatives, the contractors acknowledged that domestic ethanol production was impossible in the short-term and accepted the GoDR,s

conclusion that blending could only proceed using imported ethanol. Overcoming the long-term barriers to domestic production will require either a complete change in Dominican, U.S. and European sugar laws or a heavy subsidy aimed at making ethanol prices competitive with refined sugar. Neither option appears likely. END COMMENT.
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